

Message Text

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. BALANCE OF PAYMENTS FOR JANUARY REGISTERED
DEFICIT OF \$379.5 MILLION. NET INTERVENTION DURING MONTH
WAS HEAVY TOTALING \$285 MILLION. INTEREST PAYMENTS OF
\$86 MILLION IN JANUARY ON ITALY'S LARGE ACCUMULATED
FOREIGN DEBT SHOW SIZE OF THIS FOREIGN EXCHANGE BURDEN.
JANUARY DEFICIT FOLLOWS SMALLER DECEMBER 1974 DEFICIT OF
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\$95 MILLION, AND NOVEMBER 1974 DEFICIT OF \$484 MILLION.

BANK OF ITALY NOW FORECASTING A \$3.7 BILLION CURRENT ACCOUNT DEFICIT FOR 1975, THUS REVISING DOWNWARD ITS \$5.0 BILLION ESTIMATE MADE EARLY IN JANUARY. END SUMMARY.

2. MONETARY MOVEMENTS DATA FOR JANUARY RECORD DEFICIT OF \$379.5 MILLION. MAIN CHANGE IN RESERVES DURING PERIOD WAS DECREASE IN CONVERTIBLE CURRENCY HOLDINGS OF \$358.6 MILLION. BOI SHORT-TERM LIABILITIES INCREASED BY \$41.6 MILLION, BOI MEDIUM AND LONG-TERM LIABILITIES INCREASED BY \$25.2 MILLION, AND BOI SDR HOLDINGS INCREASED BY \$2.6 MILLION. COMMERCIAL BANKS NET FOREIGN LIABILITIES DECREASED BY \$43.3 MILLION.

3. NET EXCHANGE MARKET INTERVENTION IN JANUARY TOTALED \$285. MILLION. ERCOLANI, HEAD OF BOI FOREIGN EXCHANGE OPERATIONS, INDICATED THAT PURCHASES AND SALES OF FOREIGN EXCHANGE IN MARKET THROUGH FEBRUARY 18 WERE IN APPROXIMATE BALANCE. HE ASCRIBED GOOD BALANCE OF PAYMENTS RESULTS SO FAR IN FEBRUARY TO GENERAL BELIEF IN MARKET THAT, IN SHORT TERM, DOLLAR WAS MORE LIKELY TO DEPRECIATE AGAINST LIRA THAN TO APPRECIATE. THIS PROBABLY HAS ENCOURAGED SOME REPATRIATION OF CAPITAL, AS WELL AS DELAYS IN IMPORT PAYMENTS AND ACCELERATION OF EXPORT RECEIPTS (WITHIN PERMISSIBLE LIMITS). ERCOLANI THOUGHT THAT WEAKNESS OF DOLLAR REFLECTED BELIEF THAT US ANTI-RECESSION MEASURES SUCH AS LARGE BUDGET DEFICIT AND LOOSENING OF MONETARY POLICY WOULD WEAKEN DOLLAR RELATIVE TO OTHER CURRENCIES.

4. ERCOLANI ALSO SAID THAT THE BOI HAS RECENTLY REVISED DOWNWARD ITS ESTIMATE OF ITALY'S 1975 DEFICIT IN CURRENT ACCOUNT FROM \$5.0 BILLION TO \$3.7 BILLION TO WHICH SHOULD BE ADDED REPAYMENTS OF FOREIGN LOANS OF ABOUT \$1 BILLION. SMALLER CURRENT ACCOUNT DEFICIT CORRESPONDED WITH REVISED ESTIMATES FOR LARGER DECLINE IN REAL GNP THIS YEAR, IN RANGE 1-25 PERCENT. INTEREST PAYMENTS IN JANUARY TOTALED \$85.8 MILLION COMPARED TO \$20.9 MILLION FIGURE RECORDED IN DECEMBER 1974 TOTAL INTEREST PAYMENTS DUE IN 1975 ON ITALY'S EXTERNAL DEBT ARE ESTIMATED TO BE APPROXIMATELY \$1.4 BILLION.

5. ON FEBRUARY 18, FOLLOWING FINANCIAL RATES PREVAILED.
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LIRA EXCHANGE RATE WAS 637.725 LIRE PER DOLLAR. THREE-MONTH FORWARD RATE WAS 643.975 LIRE PER DOLLAR. WEIGHTED AVERAGE DEVALUATION OF LIRA, ACCORDING TO BOI INDEX, WAS 21.89 PERCENT COMPARED TO FEBRUARY 9, 1973 BASE PERIOD. BLACK MARKET RATE IN MILAN WAS 657.50 LIRE PER DOLLAR THREE-MONTH EUROLIRA INTEREST RATE WAS 13.25 PERCENT. LIRA INTERBANK FORTY-EIGHT HOUR RATE WAS 13.25, AND THREE-MONTH RATE WAS 12.688. VOLPE

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